MEPP

management employees pension plan

ANNUAL REPORT

06

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MEPP PROFILE

The Management Employees Pension Plan (MEPP) was originally established in 1972 as the Public Service Management Pension Plan for management employees of the Government of Alberta and approved agencies, boards and commissions.

In 1993, new legislation was passed that divided the plan into two separate plans: the Public Service Management (Closed Membership) Pension Plan (Closed Plan) and the MEPP (Plan).

Members who left the plan or retired before August 1, 1992 and those who had 35 years of pensionable service by August 1, 1992 became members of the Closed Plan. Funding for the Closed Plan is the responsibility of the Government of Alberta. Active members as of August 1, 1992 became members of MEPP.

MEPP is a contributory defined benefit plan, which means members contribute to the Plan and will receive a formula-based pension determined by their average pensionable salary and years of pensionable service. As of December 31, 2006 the Plan served 21 employers, 4,654 active members, 789 inactive members and 2,446 pensioners. A summary description of Plan provisions is in Note 1 of the financial statements. An overview of the choices and benefits under the Plan is provided in the MEPP Members' Handbook (see the MEPP Web site at www.mepp.ca).

The Board

Governance Statement

The Minister of Finance is the statutory administrator of the Management Employees Pension Plan (Plan) and holds all assets of the Plan in trust to provide benefits pursuant to the Plan and to meet Plan costs.

The *Public Sector Pension Plans Act* sets out the main objectives of the Board with respect to funding, administration, investments and amending the Plan. The Management Employees Pension Board (Board) monitors the management of the Plan and acts in an advisory capacity to the Minister of Finance.

The Board:

- may advise the Minister on any pension matter that is of interest to persons receiving or entitled in the future to receive benefits under the Plan;
- must be consulted before Plan rule changes can be put in place;
- arranges for actuarial valuations, as required, and regularly reviews long-term actuarial assumptions;
- recommends general policy guidelines for the investment and management of the Plan's assets (*Statement of Investment Policies and Procedures* (SIPP));
- reviews investment performance;
- recommends general policy guidelines on the administration of the Plan;
- reviews administrative decisions pursuant to a delegation from the Minister; and
- may advise the Minister on the Public Service Management (Closed Membership) Pension Plan (Closed Plan).

Board Members

Standing:
Fred Barth
Rod McDermand
Lorne Saul-Demers
David Lawson

Seated:
Scott Kashuba
Gail Armitage, Chair
Nancy Bochard, Vice Chair

Board Members

- The Board has seven members: three employee nominees, three persons nominated by Government and one non-voting member nominated by the Public Service Commissioner's Office.
- The offices of Board Chair and Vice Chair rotate every two years between Government and employee nominees.

Board Vision

Promised benefits will be paid.

Board Mission

To provide prudent governance of the Management Employees Pension Plan Fund and the Public Service Management (Closed Membership) Pension Plan.

Board Values and Principles

- Plan assets will be managed effectively and efficiently in compliance with governing legislation.
- All decisions made by the Board will be financially prudent, ensuring the overall financial health of the Plan is maintained and costs charged to the Plan are reasonable and equitable.
- Governance of the MEPP and Board will be consistent with governing legislation for the benefit of the members.
- The Board members embrace the prudent person concept in exercising good judgment on behalf of beneficiaries.

MESSAGE FROM THE BOARD

The Board is committed to being active stewards of your pension plan. Our primary focus is on overseeing the management of the MEPP to help ensure there are sufficient assets to meet the pension benefits promised.

In 2006, the Board revised its annual reporting of the *2005 MEPP Annual Report* and *Highlights*. Based on the response to this change and the associated cost savings, the Board will continue to publish the *MEPP Annual Report* on the Web site only, and publish and mail the *Annual Report Highlights* to Plan members and pensioners.

Plan Funding

During 2006, the MEPP fund earned 14.0% net of investment expenses. This return exceeds the 13.1% return achieved in 2005, and is well above the Plan's current long-term investment objective of 6.75% for investment earnings.

Throughout 2006, the Board continued to monitor the Plan's financial position. To support the Board, and at the request of the Minister of Finance, an actuarial valuation as at December 31, 2006 will be conducted in 2007. The Board will also undertake additional actuarial analysis to assist with the development of appropriate assumptions to be used in the preparation of the valuation.

Plan Investments

With the assistance of its Investment Committee, the Board monitors the Plan's investment performance and activities on a quarterly basis and reviews the SIPP, including the Fund's asset mix, annually.

In 2006, the Board began work on its *Statement of Investment Beliefs*, and will continue developing this document in 2007. The Board views this document as an important component of the Board's review of the SIPP. The investment beliefs adopted by the Board will assist with recommending the guidelines for the investment and management of the MEPP fund.

Throughout 2006, the Board worked with Alberta Investment Management (AIM) to refine and implement the revised allocation to certain alternative investment classes as noted in the SIPP. We also worked with AIM and our external consultant, API Asset Performance Inc., to improve investment risk management and reporting. In 2007, the Board will carry forward these initiatives, develop a process for assessing alternative investment opportunities, and begin preparation for an asset-liability modeling study in 2008.

Governance

At the start of each Board meeting, Board members are asked to declare any conflicts of interest. Throughout the year, there were no conflicts declared. In addition, Board members individually confirmed at the end of the year that they had adhered to the Board's Code of Conduct policy.

In 2006, the Board continued to work with representatives from Alberta Finance, the Personnel Administration Office (PAO), AIM, and Alberta Pensions Administration (APA) Corporation on a review of governance issues. The purpose of the review is to strengthen the overall governance framework by defining and documenting roles and responsibilities. This review will also clarify issues pertaining to Board structure and composition; Board member qualifications, experience, and education; and Board effectiveness and assessment. In 2007, the Board will continue to work in partnership with these representatives to address the Board's recommended changes and establish a clearer direction for all parties involved in the management and administration of the Plan and the investment of the Plan fund.

The Board also worked with APA Corporation throughout 2006 on reviewing how costs for administrative services are allocated among the family of Alberta public sector pension plans under the Corporation's administration. The revised cost allocation methodology recommended by APA Corporation was approved by the Minister of Finance effective January 1, 2006, and will result in a more efficient and effective allocation of Plan costs. In 2007, the Board will continue to work with APA Corporation to review and document service targets and standards for Plan administrative services.

In 2006, the Board performed a self-assessment of its success in carrying out its role. Results of this survey will assist us in our ongoing refinement of Board processes and procedures. In addition, the Board reviewed several of its policies in accordance with its schedule of reviewing each policy at least once every three years. The Board also provided feedback to Alberta Finance on plan design issues when requested, and worked with Alberta Finance to ensure timely succession of Board members.

In 2007, Board members will continue to enhance their existing knowledge of pension, investment and trustee related matters in order to serve the Plan and its members to the best of their abilities. The Board will also perform a self-assessment and review more of its policies.

For further information on the Board's initiatives, please see the Board's *2007 – 2009 Business Plan* on the MEPP Web site at www.mepp.ca.

2006 Board

On behalf of the Board, I would like to acknowledge and thank Bill Lenius, who ended his term on the Board in March after six years as an employee nominee, and Lorne Saul-Demers, who concluded his term on the Board at the end of 2006 after more than five years of service as the Public Service Commissioner's nominee.

I am pleased to welcome two new members to the Board commencing in 2007: Jan Loree Symon, Executive Director of Compensation and Benefits with the Personnel Administration Office, as the Public Service Commissioner's nominee; and Blake Bartlett, Executive Director of Finance and Administration with Alberta Advanced Education and Technology, as an employee nominee. In addition, I would like to congratulate Nancy Bochard on her reappointment as a Government nominee for another three years.

I would also like to extend thanks to Fred Barth, who concluded his term as Chair of the Board's Investment Committee at the end of 2006. I am pleased to welcome David Lawson as incoming Investment Committee Chair, effective January 1, 2007.

The success of the Board depends on the assistance of many people. The Board would like to acknowledge and extend its gratitude to the two external members on our Investment Committee – Tania Willumsen and Jim Hinks. Ms. Willumsen concluded her term on the Committee at the end of 2006 after six years of service; I am pleased to welcome Joe Doolan as her replacement. The Board would also like to thank Alberta Finance, PAO, AIM and APA Corporation for their respective contributions in assisting the Board throughout 2006.

Finally, the Board would like to extend its thanks to the Board Secretary, Christa Taylor, and Board Recording Secretary, Jennifer McNeil, for their excellent support and dedication throughout the past year.

My term on the Board has come to an end, and I would like to thank the Board for its support over the past six years, including this past year of my term as Chair of the Board. I believe the Plan has been, and will continue to be, very well served, and I would like to extend my best wishes to the Board as it continues in its stewardship of the Plan. I would also like to welcome Scott Kashuba as incoming Board Chair effective January 1, 2007.

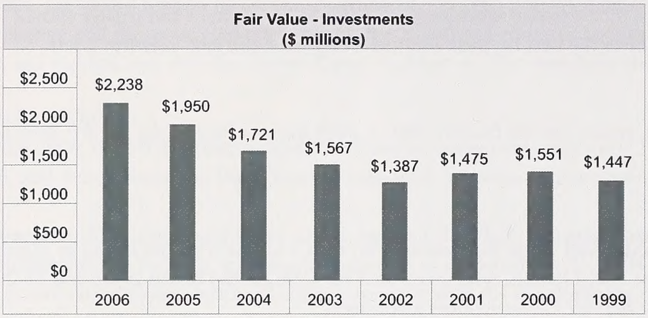
P. Gail Armitage

P. Gail Armitage
Chair, Management Employees Pension Board

HIGHLIGHTS

- For 2006, the Plan experienced a one-year investment gain of 14.0%. In 2005, investments gained 13.1%.

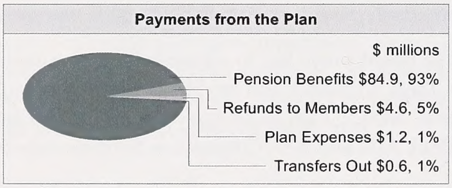
- The fair value of investments at the end of 2006 was $2.24 billion, up from $1.95 billion at the end of 2005.



- Contribution rates are set at 10.5% of pensionable salary for members and 18.0% of pensionable salary for employers. Contributions made to MEPP in 2006 totalled $105.0 million, up from $87.0 million in 2005.

Contributions	$ millions	%
Employer Contributions	65.2	62
Member Contributions	38.8	37
Transfers from Other Plans	1.0	1

- Payments from the Plan totalled $91.3 million, up from $80.2 million in 2005.



Monthly Payment Distribution December 31, 2006	
Dollar Value per Month	**Pensions Paid**
1 to 999	282
1,000 to 1,999	428
2,000 to 2,999	573
3,000 to 3,999	602
4,000 and over	561
Total	**2,446**

- APA Corporation's costs are distributed among the public sector pension plans it serves. MEPP per-member costs are based on a cost-share formula, which allocates the Corporation's operating costs according to a formula decided by the Minister of Finance. This formula was amended effective January 1, 2006 and will be reviewed every three years.

  Based on average membership, the cost per member for administrative services decreased 20.0% to $158 in 2006 (2005 $198). This is primarily due to the change in the cost allocation formula noted above.

Cost per Member	2006 Actual**	2005 Actual**
APA Corporation Operating Costs*	$131	$163
Board and Plan-specific Costs	27	35
Total Plan Operating Costs	**$158**	**$198**

* Includes strategic and operating initiatives.

** These figures do not include fees for external investment management services. The MEPP investment results are reported after deducting these costs.

- The cost-of-living adjustment (COLA) granted to pensioners who retired prior to January 1, 2006 is 2.16%, effective January 1, 2007. This is 60% of the 3.6% increase in the Alberta Consumer Price Index over the 12-month period ending October 31, 2006, in comparison with the 12-month period ending October 31, 2005.

DISCUSSION AND ANALYSIS

This Discussion and Analysis (D&A), together with MEPP financial statements, provides an overview of initiatives and achievements during the past year. This D&A does not refer to the Closed Plan, as the funding for that plan is the responsibility of the Government of Alberta.

Review of 2006

Financial Position

As at December 31, 2006, the Plan's financial statements show that net assets available for benefits were $2.247 billion and the actuarial value of accrued benefits was approximately $2.254 billion, resulting in a shortfall of approximately $7 million.

Regulation Changes

The *Management Employees Pension Plan Regulation* (A.R. 367/93) was not revised in 2006.

To obtain more information about the Plan, any upcoming changes in 2007, or for a glossary of terms, please go to the MEPP Web site at www.mepp.ca.

Investment Overview

Overall, the Plan earned a return of 14.0% in 2006 compared to 13.1% in 2005. The fair value of the Plan's investments increased to $2.24 billion, up $288 million from $1.95 billion the previous year. The Plan is a diversified portfolio that is invested across a variety of markets and asset classes.

The Canadian stock market posted its fourth consecutive year of double-digit returns. Overall, the Standard & Poor's (S&P)/Toronto Stock Exchange (TSX) Composite Index increased by 17.3% in 2006 compared to 24.1% in 2005, 14.5% in 2004 and 26.7% in 2003.

The S&P 1500 Index, which tracks the performance of the top 1,500 American companies, increased by 15.3% over the year in U.S. dollars. In Canadian dollars, the increase was approximately the same.

Non-North American markets also had healthy returns in 2006. The Morgan Stanley Capital International Index for Europe, Australasia, and the Far East (MSCI EAFE) measures the performance of approximately 1,200 companies on 21 country indices around the world. The index increased by 26.3% in Canadian dollars.

The Canadian bond market, as measured by the Scotia Capital (SC) Universe Bond Index, returned 4.1% in 2006 compared to 6.5% in 2005.

AIM, the investment operations group of Alberta Finance, aids the Alberta Minister of Finance in the investment management of the Plan. AIM invests MEPP's assets for the benefit of its members, subject to legislation and the SIPP recommended by the Board.

The Board monitors AIM's services and associated charges. An independent investment consultant, API Asset Performance Inc., assists the Board in its review of the investment performance of the Plan. The Board has designed the Plan's investment policies with a focus on assessing the risk tolerance of the Plan and ways to manage the inherent volatility of the long-term asset mix.

MEPP's asset allocation policy is structured to capture the historically higher rates of return from equities. At December 31, 2006 the target asset mix was weighted more towards equities at 54.0% followed by fixed income securities at 34.0%, real estate at 7.0%, private equities and private income at 2.0% each and 1.0% to absolute return strategies. The illiquid assets classes, such as real estate, private equity, private income and absolute return strategies, are not always readily available for purchase; therefore, the Board has designed an interim policy asset mix to facilitate the transition. As at December 31, 2006, the interim policy asset mix was 54.0% equities, 37.5% fixed income, 7.0% real estate, 1.0% private equities and 0.5% private income. The Board intends that the interim policy move towards the long-term target asset mix as illiquid assets become available.

AIM manages the majority of MEPP's investments internally. However, in order to achieve greater diversification, access external expertise and specialized knowledge, as well as reduce operational complexity, some investments are managed by third-party investment managers selected and monitored by AIM. As at December 31, 2006 MEPP had $608 million invested in AIM products that are managed wholly or partially by external managers compared to $473 million in 2005.

Statement of Investment Policies and Procedures

The SIPP sets out the governing investment principles and procedures, considering the Plan's provisions, characteristics, and financial obligations. It also defines the management structure and monitoring procedures. The Board reviews the SIPP annually and recommends changes if necessary. The SIPP can be viewed on the MEPP Web site at www.mepp.ca.

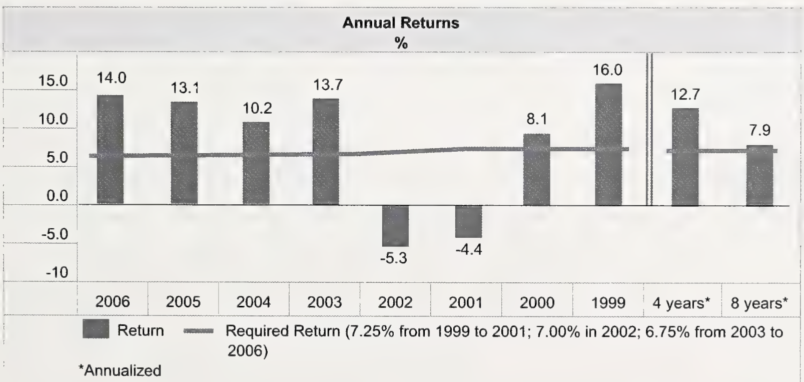
Asset Mix

The table below shows MEPP's target long-term and interim policy asset mixes in comparison with the Plan's actual asset mix at December 31, 2006 and the previous year.

Asset Mix %	Target Policy	Interim Policy	Actual 2006	Actual 2005
Fixed Income				
Cash and Short-term	0.5	0.5	0.8	0.8
Long-term	30.0	33.5	31.7	34.3
Real Return Bonds	3.5	3.5	2.9	3.6
	34.0	37.5	35.4	38.7
Equities				
Canadian	24.0	24.0	22.1	23.1
United States	14.0	14.0	16.2	14.5
Non-North American	16.0	16.0	16.7	16.1
	54.0	54.0	55.0	53.7
Real Estate	7.0	7.0	7.1	6.5
Alternative Investments				
Private Equities	2.0	1.0	1.3	0.6
Private Income	2.0	0.5	0.8	0.5
Absolute Return Strategies	1.0	0.0	0.4	0.0
Total	**100.0**	**100.0**	**100.0**	**100.0**

Long-term Investment Objective

The Plan's long-term investment expectation is specified in the SIPP. In 2006, the Board's long-term investment expectation for the Plan was 6.75%, which includes a real rate of return of 4.0% and inflation of 2.75%.



Investment Results in Relation to Benchmarks

The investment return for each asset class and the overall performance of the Plan's assets are measured against clearly defined benchmarks that have been established in the SIPP. MEPP's investment policy benchmark (referred to as the policy benchmark) is based on the long-term asset mix weightings of the portfolio invested in the following capital market indices:

	Annual Returns ($ Canadian)*				Annualized Returns**	
	2006 %	2005 %	2004 %	2003 %	4 Years %	8 Years %
Overall Actual Returns	**14.0**	**13.1**	**10.2**	**13.7**	**12.7**	**7.9**
Policy Return (1)	13.2	11.8	10.0	12.8	12.0	7.1
Consumer Price Index	1.6	2.2	2.1	2.0	2.3	2.2
Short-term Fixed Income	**4.0**	**2.9**	**2.8**	**3.1**	**3.2**	**3.9**
SC 91-Day T-Bill Index	4.0	2.6	2.3	2.9	2.9	3.6
Bonds and Mortgages	**4.8**	**7.2**	**7.9**	**7.5**	**6.9**	**6.9**
SC Universe Bond Index	4.1	6.5	7.1	6.7	6.1	6.2
Real Rate of Return Bonds	**-2.8**	**15.2**	**17.6**	**13.5**	**10.6**	**10.2**
SC Real Return Bond Index	-2.9	15.2	17.5	13.3	10.5	10.2
Total Long-term Fixed Income	**4.1**	**7.9**	**9.2**	**8.4**	**7.2**	**7.2**
Fixed Income Index (2)	3.4	7.2	8.5	7.6	6.5	6.6
Canadian Equities	**18.2**	**24.6**	**15.3**	**26.3**	**21.0**	**12.4**
S&P/TSX Capped Composite (3)	17.3	24.1	14.1	26.7	20.5	12.1
United States Equities	**15.2**	**1.8**	**3.1**	**7.3**	**6.7**	**0.4**
S&P 1500 Index (4)	15.3	2.4	3.9	5.3	6.6	0.0
Non-North American Equities	**26.8**	**13.1**	**12.3**	**14.1**	**16.4**	**6.2**
MSCI EAFE Index	26.3	10.0	12.0	13.4	15.2	3.4
Foreign Equities	**21.5**	**7.8**	**7.8**	**10.9**	**11.9**	**3.7**
Foreign Equity Index (5)	21.1	6.6	7.9	9.3	11.1	1.7
Real Estate	**21.3**	**29.9**	**10.6**	**10.0**	**17.7**	**n/a**
IPD Large All Property Index (6)	18.6	19.4	13.8	8.2	14.9	n/a
Alternative Investments	**15.5**	**15.9**	**-2.5**	**0.7**	**n/a**	**n/a**
Alternative Investments Index (7)	15.0	13.2	n/a	n/a	n/a	n/a

* Annual returns are the returns for one calendar year (12 months).
** Annualized returns convert multi-period returns (such as four years) into a compound annual return for ease of comparison between the time periods.

(1) The 2005 policy benchmark return has been updated to include the published Institute of Canadian Real Estate Investment Managers (ICREIM)/Investment Property Databank (IPD) Large Institutional All Property Index for the fourth quarter of 2005. In MEPP's published 2005 annual report the estimated policy benchmark return was 11.9%.
(2) Combined SC Bond Universe Index and Real Return Bond Index.
(3) As of June 1, 2001, 100% S&P/TSX Capped Composite.
(4) S&P 1500 Index commenced in 2005. Previously S&P 500 Index.
(5) Combined S&P 1500 Index and MSCI EAFE Index.
(6) Changed to IPD Large Institutional All Property Index from the IPD All Property Index effective May 1, 2004. Prior to January 1, 2003, the Real Estate Index was the Russell Canadian Property Index (RCPI). Also, the 2005 real estate benchmark return has been updated to include the published IPD Large Institutional All Property Index for the fourth quarter of 2005. In MEPP's published 2005 annual report the estimated IPD Large Institutional All Property Index was 20.8%.
(7) Combined S&P/TSX Composite Index + 2.5% for private equity and CPI + 6.0% for private income. The CPI in this benchmark is calculated and reported on a one-month lagged basis due to timing difference in reporting between AIM and Statistics Canada throughout the year.

AIM's performance is compared to the policy benchmark to measure the effectiveness of AIM's investment decisions. Performance is reviewed quarterly, with the emphasis on four-year returns.

In 2006, the Plan recorded an overall return of 14.0% from its investments, 80 basis points better than its policy benchmark return of 13.2%. (One basis point equals 0.01%.) Over four years, the Plan's investments returned 12.7%, 70 basis points better than the benchmark return of 12.0%. On an eight-year basis, the Plan returned 7.9%, exceeding the policy benchmark return of 7.1% by 80 basis points.

The table below shows the value added by AIM in comparison with the various components of the policy benchmark.

Value Added/Lost by Manager In Comparison to Benchmarks

	1 Year %	4 Years %
Short-term Fixed Income	0.0	0.3
Bonds and Mortgages	0.7	0.8
Real Rate of Return Bonds	0.1	0.1
Canadian Equity	0.9	0.5
U.S. Equity	-0.1	0.1
Non-North American Equity	0.5	1.2
Real Estate	2.7	2.8
Alternative Investments	0.5	n/a
Total Value Added	**0.8**	**0.7**

Fixed Income Investments

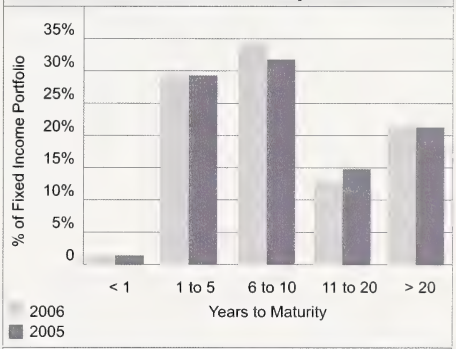
During the year, the U.S. Federal Reserve raised its federal funds rate to 5.25%, up 1.0% from the beginning of the year. In Canada, the target overnight rate ended the year at 4.25%, 1.0% greater than at the beginning of the year.

Overall, the Canadian bond market had a positive performance this year. The SC Universe Bond Index measures the performance of marketable Canadian bonds with terms to maturity of more than one year. Over the past year, the SC Universe Bond Index increased by 4.1% compared to an increase of 6.5% the previous year while the SC Real Return Bond Index decreased by 2.9%. The short-term SC 91-Day T-Bill Index increased by 4.0% compared to 2.6% the previous year.

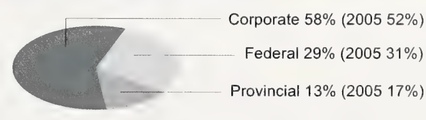
The Plan's actual rate of return over one year from long-term Canadian fixed income securities was 4.8%, 70 basis points better than the benchmark of 4.1%. The Plan's actual return from real rate of return bonds was a loss of 2.8%, 10 basis points better than the benchmark loss of 2.9%. Over four years, the return from universe bonds and mortgages was 6.9%, 80 basis points better than the benchmark of 6.1% while real rate of return bonds returned 10.6%, 10 basis points better than the benchmark of 10.5%.

At December 31, 2006, investments in bonds, mortgages, and real rate of return bonds decreased to 35.4% of total investments from 38.7% at the end of the previous year. Fixed income investments now total $793 million, up $39 million from $754 million the previous year.

Fixed Income Term Maturity Profile



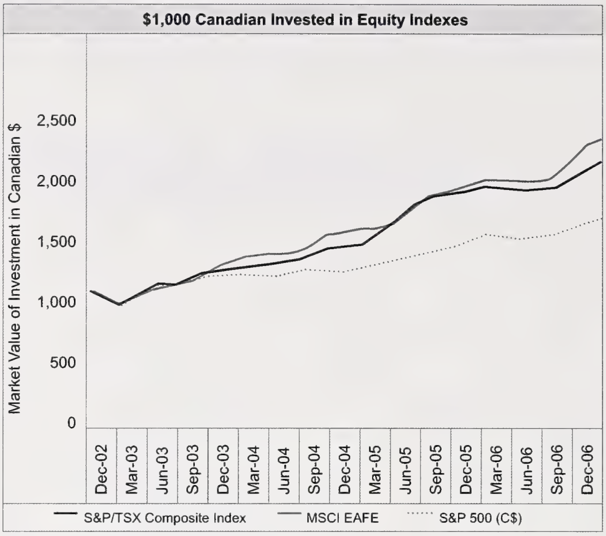
Summary of 2006 Fixed Income Holdings (issued and guaranteed by)



Equity Investments

Given MEPP's long-term investment horizon, its asset mix policy is structured to capture the historically high rate of return from equities. Equities, excluding alternative and real estate investments, represent 55.0% of the Plan's total asset mix at December 31, 2006 and consist of 22.1% in Canada, 16.2% in the U.S. and 16.7% in non-North American markets.

The chart to the right shows the growth in $1,000 dollars invested from December 31, 2002 to December 31, 2006 in each of the three major equity markets: S&P/TSX Composite Index in Canada, S&P 500 Index in the U.S. and the MSCI EAFE Index in the non-North American equity market.



Canadian Equities

At December 31, 2006, Canadian equities represented 22.1% of MEPP's total investments (or $495 million) compared to 23.1% (or $451 million) at the end of the previous year. Canadian equities are managed through several strategies including both passive index and active mandates. AIM manages the passive index and select active large cap strategies internally. External investment advisors also actively manage a large cap strategy (investing in companies with large market capitalization and incorporating value, growth, and core styles).

The actual return from Canadian equity investments over the year was 18.2%, 90 basis points better than the benchmark S&P/TSX Capped Composite Index of 17.3%.

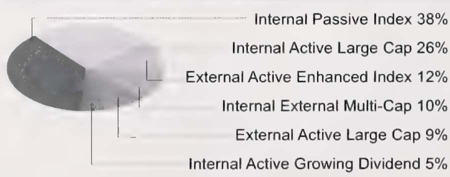
Canadian Equity Holdings

By Industry Sector December 31, 2006		$ millions	%
1	Financials	$153,545	32
2	Energy	126,687	27
3	Materials	73,240	15
4	Consumer discretionary	27,163	6
5	Telecommunications	26,969	5
6	Industrials	25,385	5
7	Information technology	22,022	5
8	Consumer staples	14,927	3
9	Utilities	4,775	1
10	Health care	3,725	1
		478,438	100
	Other assets, net of liabilities	16,315	
		$494,753	

Canadian Equity Holdings

Top 10 Companies December 31, 2006		$ millions	%
1	Royal Bank of Canada	23,151	4.8
2	Toronto-Dominion Bank (The)	22,753	4.8
3	Manulife Financial Corporation	16,961	3.5
4	Bank of Nova Scotia (The)	15,695	3.3
5	EnCana Corporation	14,396	3.0
6	Canadian Imperial Bank of Commerce	13,962	2.9
7	Canadian Natural Resources Limited	12,405	2.6
8	Suncor Energy Inc.	11,723	2.5
9	Petro-Canada	11,574	2.4
10	Sun Life Financial Inc.	10,712	2.2

Summary of Canadian Equity Holdings



Foreign Equities

The foreign equity allocation is divided into U.S. and non-North American equity markets. The non-North American segment includes investments in Europe, Australasia and the Far East (EAFE) and emerging markets.

U.S. Equities

At December 31, 2006, U.S. equities comprised 16.2% of the Plan's total investments (or $362 million) compared to 14.5% (or $282 million) the previous year. The U.S. portfolio is comprised of internally managed passive index and large cap strategies and externally managed active small-mid cap strategies. The actual return from U.S. equities over the year was 15.2%, 10 basis points less than the benchmark S&P 1500 Index of 15.3% measured in Canadian dollars.

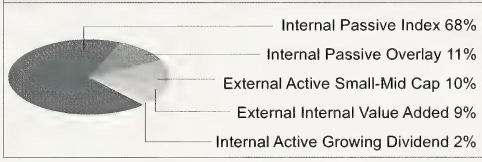
U.S. Equity Holdings

By Industry Sector December 31, 2006		$ millions	%
1	Financials	$80,103	23
2	Information technology	53,002	15
3	Health care	42,154	12
4	Industrials	40,710	11
5	Consumer discretionary	38,417	11
6	Energy	32,980	9
7	Consumer staples	30,415	9
8	Utilities	12,899	4
9	Materials	11,407	3
10	Telecommunications	11,108	3
		353,195	100
Other assets, net of liabilities		8,972	
		$362,167	

U.S. Equity Holdings

Top 10 Companies December 31, 2006		$ millions	%
1	Exxon Mobil Corporation	10,576	3.0
2	General Electric Company	9,077	2.6
3	Citigroup, Incorporated.	6,477	1.8
4	Microsoft Corporation	6,113	1.7
5	Bank of America Corporation	5,674	1.6
6	American International Group, Inc.	5,410	1.5
7	Proctor & Gamble Company (The)	4,819	1.4
8	Johnson & Johnson	4,530	1.3
9	Pfizer, Incorporated.	4,419	1.3
10	Altria Group, Incorporated.	4,256	1.2

Summary of U.S. Equity Holdings



Non-North American Equities

Non-North American equities comprised 16.7% (or $374 million) of total Plan investments at December 31, 2006 compared to 16.1% (or $314 million) the previous year. The actual return from non-North American equity markets over the year totalled 26.8%, 50 basis points better than the benchmark MSCI EAFE Index of 26.3% in Canadian dollars.

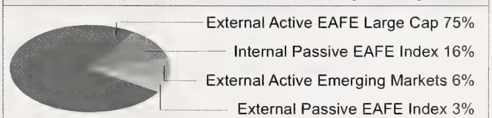
Non-North American Equity Holdings

By Industry Sector December 31, 2006		$ millions	%
1	Financials	$103,737	29
2	Industrials	47,742	13
3	Consumer discretionary	45,698	13
4	Materials	26,065	7
5	Energy	25,472	7
6	Health care	24,929	7
7	Information technology	23,241	7
8	Consumer staples	22,826	6
9	Telecommunications	22,323	6
10	Utilities	16,911	5
		358,944	100
Other assets, net of liabilities		15,483	
		$374,427	

Non-North American Equity Holdings

Top 10 Companies December 31, 2006		$ millions	%
1	GlaxoSmithKline	5,218	1.5
2	Sanofi-aventis SA	5,024	1.4
3	Total SA	4,745	1.3
4	Banco Santander Central Hispano SA	4,012	1.1
5	Toyota Motor Corporation	3,901	1.1
6	Royal Dutch Shell	3,434	1.0
7	Telefonica SA	3,282	0.9
8	ING Groep NV	3,192	0.9
9	Vodafone Groep	3,140	0.9
10	Royal Bank of Scotland Group	3,069	0.9

Summary of Non-North American Equity Holdings



Real Estate

At December 31, 2006, the Plan's real estate portfolio comprised 7.1% (or $158 million) of total investments compared to 6.5% (or $127 million) the previous year. Investments are primarily in a mix of office, retail, industrial and residential properties in major Canadian urban areas including Toronto, Ottawa, Montreal, Calgary, Edmonton, and Vancouver. The focus is on quality, featuring strong locations and tenants.

The actual real estate return in 2006 was 21.3%, 270 basis points better than the benchmark IPD Large All Property Index return of 18.6%.

Real Estate by Type

Real Estate by Province

Real Estate Holdings

	Top 5 Real Estate Holdings December 31, 2006	Location	Sector
1	Yorkdale Shopping Centre	Toronto, Ontario	Retail
2	Place Ville Marie	Montreal, Quebec	Office
3	Square One Shopping Centre	Mississauga, Ontario	Retail
4	Scarborough Town Centre	Toronto, Ontario	Retail
5	Bow Valley Square	Calgary, Alberta	Office

Alternative Investments

At December 31, 2006, the Plan's alternative investment portfolio comprised 2.5% (or $56 million) of total investments compared to 1.1% (or $23 million) the previous year. The alternative investment portfolio consists of private equities, private income, and absolute returns strategy investments that are relatively illiquid and require time to build and exit investments. Private equity investments include primarily venture capital and merchant banking investments. Venture capital investments include early stage financings and in some cases financing start-up companies. Merchant banking transactions include expansion capital, acquisition financing, management buyouts, family succession, turnaround financings, project financings and leverage reductions. Private income investments include infrastructure-related projects that are structured to yield high current income. Absolute return strategies encompass a wide variety of investments with the objective of realizing positive returns regardless of the overall market direction.

The actual return from alternative investments during the year was 15.5%, 50 basis points better than the benchmark of 15.0%, which consists of S&P/TSX Composite Index plus 2.5% for private equity and CPI plus 6.0% for private income.

Alternative Investments

Forward Looking Statements[1]

U.S. economic growth weakened substantially through the second half of 2006, largely due to weakness in the U.S. housing market. While growth will likely bounce back somewhat in early 2007, we expect growth to be weaker than that seen in 2005 and early 2006. This will have several consequences. First is a likelihood that corporate profitability, which has been very strong in recent years, will be less robust, hampering equity market performance somewhat. Second, slower U.S. growth will have a negative impact on growth in other countries around the world. While the degree of this second impact is an open question, Canadian growth will likely continue to be adversely affected in 2007. Further, a weaker U.S. economy will take some pressure off commodity prices, something that could impact commodity-laden Canadian equity markets. In short, we believe that a somewhat defensive stance in favour of larger companies with well-diversified income streams is appropriate.

A weaker U.S. economy would also suggest only modest changes in interest rates. Slowing economies reduce inflation expectations, and this will take pressure off bond yields. That said, the Federal Reserve Board remains highly attuned to the risks of inflation. It is likely to keep the Fed Funds rate steady for at least the first half of 2007. Over the year, we expect long-term bond yields to fluctuate modestly and without trend, while short-term bond yields will likely fall in the latter half of the year.

In real estate, improving underlying rental market fundamentals and strong capital market demand created a good environment for positive results, especially in Western Canada with its booming resource economies. Cost pressures and supply shortages have increased the risk of new construction activity; however, the potential return to new development remains solid. Globally, in 2007, the continued pressure to deploy investment capital will bring about intense competition for stable income-generating assets with investors bidding down initial returns to new lows. However, investors should not count on further yield compression, i.e. yields being driven down by unprecedented investor demand, to drive future returns. Going forward we expect an increased focus on growing rental income either through leasing and development or through diversification in non-Canadian real estate markets.[2]

Risk Management System

AIM maintains a market risk management system to model and measure the market risks associated with investments for MEPP. The system provides a comprehensive framework for measuring, monitoring, and managing risk to assist in the decisions regarding investment and risk policies.

Proxy Voting

The Board has delegated to AIM the responsibility for voting proxies. AIM votes in the best interests of Plan beneficiaries and in accordance with established policies through a service provider, Institutional Shareholder Services (ISS). The annual policy update by ISS supports and applies recent developments in corporate governance oversight. AIM applies policies, which adhere to the principles of the Dey Report, while monitoring the opinions of peer organizations regarding contentious votes. The proxy voting policies support responsible management practices. AIM believes in responsible investing based on owning well-managed, legally operating companies in Canada and in countries where Canada has normal trade relationships.

[1] The Forward Looking Statements were prepared by Alberta Investment Management.
[2] The above comments were paraphrased from Bentall Capital and LaSalle Investment Management market summaries and succinctly capture many investors' thoughts on the state of real estate investment.

Plan Administration

MEPP is administered by APA Corporation.

Projects

APA Corporation worked on a number of projects in 2006 that impact MEPP stakeholders. Major projects included:

Pension e-guide – this online manual for employers was expanded to include forms, membership information, and details on the processing of retirement, termination, optional service, death and disability transactions. *Pension e-guide* provides employers with fast, electronic access to information needed for the administration of pensions.

Vault – this document imaging and electronic records management project was implemented for member records. This project increases the security for APA Corporation's records, while also increasing accessibility of the records for pension administration purposes.

Communication and Education Services

In 2006, APA Corporation communicated with MEPP members, pensioners and employers in a number of ways, including:

#	Communication or Education Service Provided
584	Member Welcome Packages were sent to new members
45	Member Seminars were held
277	Members participated in Member Seminars
34	Members attended One-on-One Sessions held across Alberta
7,000	Copies of the *2005 MEPP Annual Report Highlights* were printed
12	Editions of the electronic employer newsletter, *Pension e-news*, were produced

2006 FINANCIAL STATEMENTS

ACTUARY'S OPINION

Aon Consulting Inc. was retained by the Management Employees Pension Board to perform actuarial valuations of the assets and liabilities of the Management Employees Pension Plan as at December 31, 2004. Aon Consulting Inc. was further retained to prepare extrapolations of the valuation results to December 31, 2006 for inclusion in the Annual Report with respect to the Management Employees Pension Plan for the Year Ended December 31, 2006.

The valuation and extrapolation of the Plan's actuarial assets and liabilities were based on:

- membership data provided by Alberta Pensions Administration (APA) Corporation as at December 31, 2004, and asset data provided by APA Corporation as at December 31, 2004 and December 31, 2006;
- methods prescribed by the Canadian Institute of Chartered Accountants for pension plan financial statements; and
- assumptions about future events (economic and demographic) which were developed by management and Aon Consulting Inc. and are considered as management's best estimate of these events.

While the actuarial assumptions used to estimate liabilities for the Plan's financial statements contained in the Annual Report represent management's best estimate of future events, and while in our opinion these assumptions are reasonable, the Plan's future experience will differ from the actuarial assumptions. Emerging experience differing from the assumptions will result in gains or losses that will be revealed in future valuations, and will affect the financial position of the Plan.

I have tested the data for reasonableness and consistency with prior valuations and in my opinion the data is sufficient and reliable for the purposes of the valuation and the extrapolation. I also believe that the methods employed in the valuation and extrapolation and the assumptions used are, in aggregate, appropriate. My opinions have been given, and my valuation and extrapolation have been performed in accordance with accepted actuarial practice.

Wayne R. Berney

Wayne R. Berney
Fellow, Canadian Institute of Actuaries
Fellow, Society of Actuaries

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The Management Employees Pension Plan (Plan) financial statements and financial information in the 2006 Annual Report are the responsibility of the Minister of Finance. Certain of these responsibilities are undertaken on behalf of the Minister of Finance by:

- Alberta Investment Management (AIM), the investment operation of Alberta Finance, which is only responsible for the management of assets, subject to legislation and to the investment policies and goals approved by the Plan Board;
- Alberta Pensions Administration (APA) Corporation, which is only responsible for administration of the Plan under an Administrative Services Agreement with the Minister of Finance. This responsibility also includes compilation of the Plan's Annual Report; and
- Alberta Treasury Board, which is responsible for compilation and review of the Plan's financial statements.

The information in the annual report has been approved by the Plan Board. The financial statements were approved by the Deputy Minister of Finance, based on information provided by APA Corporation and the Plan's actuary, and after consultation with the Plan Board.

The financial statements have been prepared by Alberta Treasury Board in conformity with Canadian generally accepted accounting principles and, of necessity, include some amounts that are based on estimates and judgments. Financial information presented in the 2006 Annual Report that relates to the operations and financial position of the Plan is consistent with that in the financial statements.

To discharge their responsibility for the integrity and objectivity of financial reporting, Alberta Treasury Board, Alberta Finance, APA Corporation and AIM each maintain a system of internal controls comprising written policies, standards and procedures, and a formal accountability structure. These systems are designed to provide management of these entities with reasonable assurance that transactions are properly authorized, reliable financial records are maintained, and assets are adequately accounted for and safeguarded.

The Auditor General of Alberta, the Plan's external auditor, provides an independent audit of the financial statements.

Robert Bhatia

Robert Bhatia
Deputy Minister of Finance

March 2, 2007

AUDITOR'S REPORT

AUDITOR GENERAL *Alberta*

To the Minister of Finance

I have audited the Statement of Net Assets Available for Benefits and Accrued Benefits of the Management Employees Pension Plan (the Plan) as at December 31, 2006 and the Statements of Changes in Net Assets Available for Benefits, Changes in Accrued Benefits and Changes in Deficiency for the year then ended. These financial statements are the responsibility of the Plan's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the Net Assets Available for Benefits and Accrued Benefits of the Plan as at December 31, 2006 and the Changes in Net Assets Available for Benefits, Changes in Accrued Benefits and Changes in Deficiency for the year then ended in accordance with Canadian generally accepted accounting principles.

Fred J Dunn

Fred Dunn, FCA
Auditor General

Edmonton, Alberta
March 2, 2007, except as to Note 10 which is as of March 22, 2007.

MANAGEMENT EMPLOYEES PENSION PLAN

Statement of Net Assets Available for Benefits and Accrued Benefits

As at December 31, 2006

	2006	2005
	($ thousands)	
Net assets available for benefits		
Assets		
Investments (Note 3)	$2,237,985	$1,949,988
Accrued investment income and accounts receivable	513	358
Contributions receivable		
Employees	3,128	2,922
Employers	5,347	5,002
	2,246,973	1,958,270
Liabilities		
Accounts payable	81	98
Net assets available for benefits	2,246,892	1,958,172
Accrued benefits		
Actuarial value of accrued benefits	2,253,657	2,124,067
Deficiency	**$(6,765)**	**$(165,895)**

The accompanying notes and schedules are part of these financial statements.

MANAGEMENT EMPLOYEES PENSION PLAN

Statement of Changes in Net Assets Available for Benefits

For the year ended December 31, 2006

	2006	2005
	($ thousands)	
Net investment income (Note 6)		
Investment income	$279,150	$227,795
Investment expenses (Note 7)	(3,958)	(3,368)
	275,192	224,427
Member service operations		
Contributions		
Current and optional service		
Employees	38,774	34,157
Employers	65,229	51,846
Pension benefits	(84,937)	(76,873)
Refunds to members	(4,653)	(1,900)
Transfers from other plans, net	322	953
Member service expenses (Note 7)	(1,207)	(1,416)
	13,528	6,767
Increase in net assets	288,720	231,194
Net assets available for benefits at beginning of year	1,958,172	1,726,978
Net assets available for benefits at end of year	**$2,246,892**	**$1,958,172**

The accompanying notes and schedules are part of these financial statements.

MANAGEMENT EMPLOYEES PENSION PLAN

Statement of Changes in Accrued Benefits

For the year ended December 31, 2006

	2006	2005
	($ thousands)	
Increase in accrued benefits		
Interest accrued on benefits	$143,120	$134,735
Benefits earned	75,738	70,351
	218,858	205,086
Decrease in accrued benefits		
Benefits paid and transfers	(89,268)	(77,820)
Other changes in accrued benefits		
Net experience gains	-	(19,648)
Losses due to changes in actuarial assumptions	-	1,652
Impact of salary range increases	-	9,467
Loss due to increase in the maximum pensionable salary limit	-	10,251
	-	1,722
Net increase in accrued benefits	129,590	128,988
Accrued benefits at beginning of year	2,124,067	1,995,079
Accrued benefits at end of year (Note 8)	**$2,253,657**	**$2,124,067**

The accompanying notes and schedules are part of these financial statements.

MANAGEMENT EMPLOYEES PENSION PLAN

Statement of Changes in Deficiency

For the year ended December 31, 2006

	2006	2005
	($ thousands)	
Deficiency at beginning of year	$(165,895)	$(268,101)
Increase in net assets available for benefits	288,720	231,194
Net increase in accrued benefits	(129,590)	(128,988)
Deficiency at end of year	**$(6,765)**	**$(165,895)**

The accompanying notes and schedules are part of these financial statements.

MANAGEMENT EMPLOYEES PENSION PLAN

Notes to the Financial Statements

December 31, 2006

Note 1 - Summary Description of the Plan

The following description of the Management Employees Pension Plan (the Plan) is a summary only. For a complete description of the Plan, reference should be made to the *Public Sector Pension Plans Act,* Chapter P-41, Revised Statutes of Alberta 2000 and Alberta Regulation 367/93, as amended.

(a) General

The Plan is a contributory defined benefit pension plan for eligible management employees of the Province of Alberta and certain approved provincial agencies and public bodies. Members of the former Public Service Management Pension Plan who were active contributors at August 1, 1992 and have not withdrawn from the Plan since that date continue as members of this Plan. The Plan is a registered pension plan as defined in the *Income Tax Act.* The Plan's registration number is 0570887.

(b) Funding Policy

Current service costs and the Plan's actuarial deficiency (see Note 9) are funded by employee and employer contributions at rates which together with investment earnings are expected to provide for all benefits payable under the Plan. The rates in effect at December 31, 2006 were unchanged at 10.5% of pensionable salary up to the *maximum pensionable salary limit* under the federal *Income Tax Act* for employees and 18.0% for employers. The rates are reviewed at least once every three years by the Minister of Finance, in consultation with the Board, based on recommendations of the Plan's actuary.

(c) Retirement Benefits

The Plan provides a pension of 2.0% for each year of pensionable service based on the average salary of the highest five consecutive years. Pensionable earnings after December 31, 1991 are capped at the *maximum pensionable salary limit* under the federal *Income Tax Act.* The maximum service allowable under the Plan is 35 years.

Pensions are payable to members who have attained age 65 at retirement.

Members are entitled to an unreduced pension on service before 1992 if they have attained age 55 and have at least five years of service.

Members are entitled to an unreduced pension on service after 1991 if they retire with at least five years of service and have either attained age 60, or age 55 and the sum of their age and years of service equals 80. Pensions on service after 1991 are reduced if the member is under age 60 and the 80 factor is not attained.

(d) Disability Benefits

Pensions may be payable to members who become totally disabled and retire early with at least five years of service. Reduced pensions may be payable to members who become partially disabled and retire early with at least five years of service.

(e) Death Benefits

Death benefits are payable on the death of a member. If the member has at least five years of service, a surviving pension partner may choose to receive a survivor pension, or a lump sum payment. For a beneficiary other than a pension partner, or where service is less than five years, the benefits take the form of a lump sum payment.

Note 1 - Summary Description of the Plan (continued)

(f) Termination Benefits

Members who terminate with fewer than five years of service receive a refund of their contributions plus interest.

Members who terminate with more than five years of service and are not immediately entitled to a pension may apply for a lump sum payment or a deferred pension. The lump sum payment is based on contributions and interest in relation to service before 1992 and commuted value for service after 1991. The commuted value portion of the lump sum payment is subject to the Plan's lock-in provisions.

(g) Optional Service and Transfers

All optional service purchases are to be cost-neutral to the Plan.

Reciprocal agreements provide that transferred-in service be on an actuarial reserve basis and transfers out receive the greater of the commuted value for all service or all contributions made by the member to the Plan.

(h) Cost-of-Living Adjustments

Pensions payable are increased each year on January 1 by an amount equal to 60% of the increase in the Alberta Consumer Price Index. The increase is based on the increase during the 12-month period ending on October 31 in the previous year.

(i) Guarantee

The Province of Alberta guarantees payment of all benefits arising from service before 1994.

Note 2 - Summary of Significant Accounting Policies and Reporting Practices

(a) Basis of Presentation

These financial statements are prepared on the going concern basis in accordance with Canadian generally accepted accounting principles. The statements provide information about the net assets available in the Plan to meet future benefit payments and are prepared to assist Plan members and others in reviewing the activities of the Plan for the year.

Except for real rate of return bonds which are held directly by the Plan, Plan investments are held in pooled investment funds administered by Alberta Finance or external managers appointed by Alberta Finance. Pooled investment funds have a market-based unit value that is used to allocate income to pool participants and to value purchases and sales of pool units.

(b) Valuation of Assets and Liabilities

Investments are stated at fair value. The methods used to determine the fair value of investments held either by the Plan or by pooled investment funds are explained in the following paragraphs:

(i) Short-term securities, public fixed income securities and equities are valued at the year-end closing sale price or the average of the latest bid and ask prices quoted by an independent securities valuation company.

(ii) Private fixed income securities and mortgages are valued based on the net present value of future cash flows. These cash flows are discounted using Government of Canada bond rates adjusted for a risk premium estimated by investment managers of Alberta Finance.

(iii) The fair value of alternative and private investments is estimated by Alberta Finance or external managers appointed by Alberta Finance. This is done using methods such as cost, discounted cash flows, earnings multiples, prevailing market values for instruments with similar characteristics and other pricing models.

Note 2 - Summary of Significant Accounting Policies and Reporting Practices (continued)

(b) Valuation of Assets and Liabilities (continued)

(iv) Real estate investments are reported at their most recent appraised value net of any liabilities against the real property. Real estate properties are appraised annually by qualified external real estate appraisers using methods such as cost, discounted cash flows, earnings multiples, prevailing market values for properties with similar characteristics and other pricing models.

(v) The fair values of deposits, receivables, accrued investment income and payables are estimated to approximate their book values.

(c) Income Recognition

Dividends are accrued on the ex-dividend date. Income from other investments is accrued as earned. Gains or losses on investments are recognized concurrently with changes in fair value.

(d) Foreign Exchange

Foreign currency transactions are translated into Canadian dollars using average rates of exchange except for hedged foreign currency transactions, which are translated at rates of exchange established by the terms of the forward exchange contracts. At year-end, the fair value of investments and any other assets and liabilities denominated in a foreign currency are translated at the year-end exchange rate. Exchange differences are included in the determination of net investment income.

(e) Valuation of Derivative Contracts

Derivative contracts (see Note 5) include equity and bond index swaps, interest rate swaps, forward foreign exchange contracts, equity index futures contracts, credit default swaps, cross-currency interest rate swaps and swap option contracts. The value of derivative contracts is included in the fair value of pooled investment funds. The estimated amount receivable or payable from derivative contracts at the reporting date is determined by the following methods:

(i) Equity and bond index swaps are valued based on changes in the appropriate market based index net of accrued floating rate interest.

(ii) Interest rate swaps and cross-currency interest rate swaps are valued based on discounted cash flows using current market yields and year-end exchange rates.

(iii) Forward foreign exchange contracts and equity index futures contracts are based on quoted market prices.

(iv) Credit default swaps are valued based on discounted cash flows using current market yields and calculated default probabilities.

(v) Swap option contracts are valued based on discounted cash flows using current market yields and volatility parameters which measure changes in the underlying swaps.

Income and expense from derivative contracts are accrued as earned and included in net investment income. Gains and losses on derivative contracts are recognized concurrently with changes in fair value.

(f) Measurement Uncertainty

In preparing these financial statements, estimates and assumptions are used in circumstances where the actual values are unknown. Uncertainty in the determination of the amount at which an item is recognized in financial statements is known as measurement uncertainty. Such uncertainty exists when there is a variance between the recognized amount and another reasonably possible amount, as there is whenever estimates are used.

Note 2 - Summary of Significant Accounting Policies and Reporting Practices (continued)

(f) Measurement Uncertainty (continued)

Measurement uncertainty exists in the calculation of the Plan's actuarial value of accrued benefits and in the valuation of the Plan's private and alternative investments and real estate. Uncertainty arises because:

(i) the Plan's actual experience may differ significantly from assumptions used in the calculation of the Plan's accrued benefits, and

(ii) the estimated fair values of the Plan's private and alternative investments and real estate may differ significantly from the values that would have been used had a ready market existed for these investments.

While best estimates have been used in the calculation of the Plan's accrued benefits and in the valuation of the Plan's private and alternative investments and real estate, management considers that it is possible, based on existing knowledge, that changes in future conditions in the short term could require a material change in the recognized amounts.

Differences between actual results and expectations are disclosed as assumption or other changes and net experience gains or losses in the statement of changes in accrued benefits in the year when actual results are known.

Differences between the estimated fair values and the amount ultimately realized are included in net investment income in the year when the ultimate realizable values are known.

Note 3 - Investments (Schedules A to E)

	2006 Fair Value ($ thousands)	%	2005 Fair Value ($ thousands)	%
Fixed Income Securities (Schedule A)				
Deposit in the Consolidated Cash Investment Trust Fund (a)	$11,844	0.5	$11,941	0.6
Canadian Dollar Public Bond Pool (b)	610,563	27.3	568,464	29.2
Private Mortgage Pool (c)	99,239	4.4	100,428	5.1
Real rate of return bonds (d)	65,908	2.9	69,780	3.6
External Managers Currency Alpha Pool (e)	5,479	0.3	3,003	0.2
Total fixed income securities	793,033	35.4	753,616	38.7
Canadian Equities (Schedule B)				
Domestic Passive Equity Pooled Fund (f)	198,157	8.9	200,825	10.3
Canadian Pooled Equities Fund (g)	132,596	5.9	118,669	6.1
External Managers				
Canadian Equity Enhanced Index Pool (h)	63,835	2.9	50,447	2.6
Canadian Large Cap Equity Pool (i)	45,272	2.0	41,581	2.1
Canadian Multi-Cap Pool (j)	53,960	2.4	31,710	1.6
Growing Equity Income Pool (k)	27,454	1.2	27,396	1.4
Tactical Asset Allocation Pool (m)	(31,114)	(1.4)	(21,175)	(1.1)
Private Equity Pool	4,593	0.2	1,453	0.1
	494,753	22.1	450,906	23.1
United States Equities (Schedule C)				
U.S. Structured Equity Pool (l)	244,566	10.9	199,883	10.2
Tactical Asset Allocation Pool (m)	38,846	1.7	26,452	1.4
External Managers				
U.S. Mid/Small Cap Equity Pool (n)	36,894	1.7	32,187	1.7
Portable Alpha U.S. Transfer Pool (o)	32,884	1.5	16,790	0.9
Growing Equity Income Pool (k)	8,977	0.4	6,871	0.3
	362,167	16.2	282,183	14.5
Non-North American Equities (Schedule D)				
External Managers				
EAFE Active Equity Pool (p)	279,349	12.5	234,175	12.0
Emerging Markets Equity Pool (q)	24,852	1.1	23,913	1.2
EAFE Passive Equity Pool (r)	9,983	0.4	16,430	0.9
EAFE Structured Equity Pooled Fund (r)	60,243	2.7	39,409	2.0
	374,427	16.7	313,927	16.1
Alternative Investments - Equities				
Private Equity and Private Income Pools (s)	47,188	2.1	22,560	1.1
External Managers				
Absolute Return Strategies Pool (t)	8,687	0.4	-	-
	55,875	2.5	22,560	1.1
Real Estate Equities (Schedule E)				
Private Real Estate Pool (u)	157,730	7.1	126,796	6.5
Total equities	1,444,952	64.6	1,196,372	61.3
Total investments	**$2,237,985**	**100.0**	**$1,949,988**	**100.0**

Note 3 - Investments (Schedules A to E) (continued)

(a) The Consolidated Cash Investment Trust Fund is managed with the objective of providing competitive interest income to depositors while maintaining maximum security and liquidity of depositors' capital. The portfolio is comprised of high-quality short-term and mid-term fixed income securities with a maximum term to maturity of three years.

(b) The Canadian Dollar Public Bond Pool is managed with the objective of providing competitive returns comparable to the total return of the Scotia Capital Universe Bond Index over a four-year period while maintaining adequate security and liquidity of participants' capital. The portfolio is comprised of high-quality Canadian fixed income instruments and debt related derivatives. Competitive returns are achieved through management of the portfolio duration and sector rotation.

(c) The Private Mortgage Pool is managed with the objective of providing investment returns higher than the Scotia Capital Universe Bond Index over the long term. The portfolio is comprised primarily of high-quality commercial mortgage loans and provincial bond residuals. To limit investment risk, the Pool only invests in loans insured by a federal agency and first-mortgage loans that provide diversification by property usage and geographic location.

(d) Real rate of return bonds are issued or guaranteed by the Government of Canada and bear interest at a fixed rate adjusted for inflation.

(e) The External Managers Currency Alpha Pool is managed with the objective of providing a fair return over a four-year period while reducing return volatility through multiple manager investment styles and strategies. The return is achieved through active currency management with currency positions established primarily through forward foreign exchange contracts. Participants deposit into the Pool a modest amount of cash to minimize rebalancing of cash flows in or out of the Pool when the forward foreign exchange contracts settle.

(f) The Domestic Passive Equity Pooled Fund is managed on a passive approach with the objective of providing investment returns comparable to the total return of the S&P/TSX Composite Index. The portfolio is comprised of both publicly traded Canadian equities and structured investments replicating the S&P/TSX Composite Index.

(g) The Canadian Pooled Equities Fund is managed with the objective of providing returns higher than the total return of the S&P/TSX Composite Index while maintaining preservation of participants' capital. The portfolio is comprised of publicly traded equities in Canadian corporations and is designed to reduce risk by prudent security selection and sector rotation.

(h) The External Managers Canadian Equity Enhanced Index Pool consists of a single portfolio of publicly traded Canadian equities in the large cap market and is designed to generate a consistent level of investment return above the total return of the S&P/TSX Composite Index over a four-year period with relatively low risk.

(i) The External Managers Canadian Large Cap Equity Pool consists of multiple portfolios of publicly traded Canadian equities. Each portfolio is actively managed by an external manager with expertise in the Canadian large cap equity markets. The performance objective is to provide investment returns higher than the total return of the S&P/TSX Composite Index over a four-year period while reducing return volatility through multiple manager investment styles and unique market capitalization focus.

(j) The Canadian Multi-Cap Pool consists of a single portfolio with multiple components. The large cap component is internally managed and provides exposure to the Canadian equity market through structured investments replicating the S&P/TSX 60 Index. The small/mid cap component is managed by an external manager with expertise in the Canadian small/mid cap markets. The performance objective is to provide investment returns higher than the total return of the S&P/TSX Composite Index over a four-year period.

Note 3 - Investments (Schedules A to E) (continued)

(k) The Growing Equity Income Pool is managed with the objective of providing returns higher than the return of S&P/TSX Custom Dividend Index over a four-year period. The Pool is intended to provide a steady stream of dividend income with potential for capital appreciation by investing in dividend-paying Canadian and U.S. companies that exhibit attractive valuation, growth and financial characteristics.

(l) The U.S. Structured Equity Pool is passively managed. The portfolio is comprised of publicly traded United States equities similar in weights to the S&P 500 Index. The performance objective is to provide investment returns comparable to the total return of the S&P 500 Total Return Index. The Pool utilizes a combination of pure security replication and synthetic replication strategies to obtain exposure to the benchmark. To enhance investment returns with no substantial increase in risks, the Pool also invests in futures, swaps and other structured investments.

(m) The Tactical Asset Allocation Pool is managed with the objective of providing a quick, effective and efficient way to reduce exposure to Canadian equities and increase exposure to United States equities through synthetic instruments on a largely unfunded basis. Cash and short-term securities held by the Pool support approximately 5% to 10% of the Pool's notional exposure in Canadian and United States equity index futures contracts.

(n) The External Managers U.S. Mid/Small Cap Equity Pool consists of multiple portfolios of publicly traded United States equities. The portfolios are actively managed by external managers with expertise in the U.S. mid/small cap equity markets. The performance objective is to provide returns higher than the total return of the Russell 2500 Index and/or the S&P 500 Total Return Index over a four-year period while reducing return volatility through multiple manager investment styles and unique market capitalization focus.

(o) The Portable Alpha U.S. Transfer Pool provides exposure to the United States equity market by replicating the S&P 500 Index with S&P 500 index swaps and futures contracts. Externally managed absolute return strategy investments and money market instruments are actively used as underlying securities to add value to the exposure. The performance objective is to provide returns higher than the S&P 500 Index over the long term.

(p) The External Managers EAFE (Europe, Australasia and Far East) Active Equity Pool consists of multiple portfolios of publicly traded non-North American equities. Each portfolio is actively managed by an external manager and has constraints on foreign currency management, country allocation, stock selection and investments in emerging markets. The performance objective is to provide investment returns higher than the total return of the Morgan Stanley Capital International (MSCI) EAFE Index over a four-year period while reducing return volatility through multiple manager investment styles and market diversification.

(q) The External Managers Emerging Markets Equity Pool consists of publicly traded equities in emerging markets around the world. The portfolios are actively managed by external managers with expertise in emerging markets. The performance objective is to provide returns higher than the total return of the Morgan Stanley Capital International Emerging Markets Free (MSCI EMF) Index over a four-year period.

(r) The External Managers EAFE Passive Equity Pool's and the EAFE Structured Equity Pooled Fund's performance objective is to provide returns comparable to the total return of the MSCI EAFE Index over a four-year period. The External Managers EAFE Passive Equity Pool consists of a single portfolio of non-North American publicly traded equities similar in weights to the MSCI EAFE Index. The EAFE Structured Equity Pooled Fund is internally managed and provides exposure to foreign markets in Europe, Australasia and the Far East through the use of structured investments such as foreign equity index swaps. The Pooled Fund also invests in the Floating Rate Note Pool to generate the floating rate cash flows needed for its equity swap obligations.

Note 3 - Investments (Schedules A to E) (continued)

(s) The Private Equity Pools are managed with the objective of providing investment returns comparable to the S&P/TSX Composite Index plus 2.5% over the long term. The pools invest in institutionally sponsored Canadian private equity pools managed by experienced advisors with proven records. Risk is reduced by avoiding direct investments in private companies and by limiting holdings in any single pool. The Private Income Pools are managed with the objective of providing an investment return comparable to the Consumer Price Index plus 6% over the long term. The pools invest in infrastructure-related projects that are structured to provide high current income.

(t) The External Managers Absolute Return Strategy Pool is managed with the objective of providing investment returns higher than the Consumer Price Index plus 6%. The Pool is intended to yield absolute positive investment returns with low volatility using various investment strategies.

(u) The Private Real Estate Pool is managed with the objective of providing investment returns higher than the Investment Property Databank (IPD) Large Institutional All Property Index over the long term. Real estate is held through limited partnerships and intermediate companies which have issued to the Pool common shares and participating debentures secured by a charge on real estate. Risk is reduced by investing in properties that provide diversification by geographic location, by property type and by tenancy. The Pool is intended to provide diversification from the securities market.

Note 4 - Investment Risk Management

Fair values of investments are exposed to credit risk and price risk. Credit risk relates to the possibility that a loss may occur from the failure of another party to perform according to the terms of a contract. Price risk is comprised of currency risk, interest rate risk and market risk. Currency risk relates to the possibility that the investments will change in value due to future fluctuations in foreign exchange rates. Interest rate risk relates to the possibility that the investments will change in value due to future fluctuations in market interest rates. Market risk relates to the possibility that the investments will change in value due to future fluctuations in market prices.

Actuarial liabilities of the Plan are primarily affected by the long-term real rate of return expected to be earned on investments. The expected rate of return on investments, together with the expected long-term inflation rate, form the basis for determining the economic assumptions used in calculating the actuarial liabilities.

In order to earn the best possible return at an acceptable level of risk, the Board has established a long-term policy asset mix of 34% fixed income instruments and 66% equities. Equities include investments in real estate and alternative investments. Investment risk is reduced through asset class diversification, diversification within each asset class, quality constraints on fixed income instruments, and restrictions on amounts exposed to countries designated as emerging markets. Controls are in place respecting the use of derivatives (see Note 5). Forward foreign exchange contracts may be used to manage currency exposure in connection with securities purchased in a foreign currency (see Note 5).

Note 5 - Derivative Contracts

Derivative contracts are financial contracts, the value of which is derived from the value of underlying assets, indices, interest rates or currency rates. The Plan uses derivative contracts held indirectly through pooled investment funds to enhance return, manage exposure to credit, interest and foreign currency risks, and for asset mix management purposes. The notional value of a derivative contract represents the amount to which a rate or price is applied in order to calculate the exchange of cash flows.

Note 5 - Derivative Contracts (continued)

A swap is a contractual agreement between two counter-parties to exchange a series of cash flows based on a notional amount. An equity or bond index swap involves the exchange of a floating interest rate cash flow for one based on the performance of a market index. For interest rate swaps, parties generally exchange fixed and floating rate interest cash flows based on a notional amount. For credit default swaps, parties buy and sell insurance against credit risks inherent in bonds. Periodic payments, based on a notional amount, are exchanged for a contingent payment following a defined credit event of a reference entity. Cross-currency interest rate swaps are contractual obligations in which the principal amounts of Canadian fixed-income securities denominated in foreign currency are exchanged for Canadian currency amounts both initially and at maturity. Over the term of the cross-currency swap, counter-parties exchange fixed to fixed and fixed to floating interest rate cash flows in the swapped currencies. Generally, there are underlying securities supporting all swaps and leveraging is not allowed.

Forward foreign exchange contracts are agreements to exchange specified currencies at an agreed upon exchange rate and on an agreed settlement date in the future.

Equity index futures contracts are agreements to receive or pay cash on an agreed settlement date based on changes in the level of a specified stock index in the future.

Swap option contracts include the right, but not the obligation, to enter into an interest rate swap at a preset rate within a specified period of time.

The following is a summary of the Plan's proportionate share of the notional amount and fair value of derivative contracts held by pooled funds at December 31, 2006:

	2006					2005	
	Maturity				Net		Net
	Under 1 Year	1 to 3 Years	Over 3 Years	Notional Amount	Fair Value (a)	Notional Amount	Fair Value (a)
	%			($ thousands)			
Swap option contracts	74	9	17	$564,505	$(412)	$ -	$ -
Equity index swap contracts	79	21	-	483,740	16,104	382,966	10,257
Interest rate swap contracts	8	51	41	479,319	(265)	125,539	2,489
Credit default swap contracts	3	16	81	322,494	339	43,450	402
Forward foreign exchange contracts	100	-	-	189,322	(676)	98,285	(71)
Bond index swap contracts	100	-	-	172,144	651	27,902	608
Equity index futures contracts	100	-	-	166,706	4,912	102,745	1,242
Cross-currency interest rate swap contracts	18	32	50	140,716	4,734	110,488	7,606
				$2,518,946	$25,387	$891,375	$22,533

(a) The method of determining fair value of derivative contracts is described in Note 2 (e).

The notional amounts, upon which payments are based, are not indicative of the credit risk associated with derivative contracts. Current credit exposure is represented by the current replacement cost of all outstanding contracts in a favourable position (positive fair value). The Plan attempts to limit its credit exposure by dealing with counter-parties believed to have good credit standing.

Note 6 - Net Investment Income

Net investment income of the Plan is comprised of the following:

	2006	2005
	($ thousands)	
Investment income		
Net realized and unrealized gains on investments, including those arising from derivative transactions	$194,333	$156,572
Interest income	57,727	50,416
Dividend income	19,564	15,105
Real estate operating income	6,910	5,234
Securities lending income	616	468
	279,150	227,795
Investment expenses	(3,958)	(3,368)
Net investment income	**$275,192**	**$224,427**

The following is a summary of the Plan's proportionate share of net investment income by type of investments:

	2006	2005
	($ thousands)	
Fixed income securities	$33,021	$52,470
Canadian equities	85,516	103,056
Foreign equities		
United States	41,278	3,491
Non-North American	82,131	36,313
Alternative investments - equities	5,612	2,465
Real estate equities	27,634	26,632
Net investment income	**$275,192**	**$224,427**

Note 6 - Net Investment Income (continued)

Investment expenses totalling $3,958,000 (2005 $3,368,000) are included in the calculation of Plan's investment performance results, which are as follows:

	One-Year Return	Four-Year Compound Annualized Return	Eight-Year Compound Annualized Return
Time-weighted rates of return*			
Overall Plan	14.0%	12.7%	7.9%
Policy Benchmark**	13.2%	12.0%	7.1%

* The measure involves the calculation of the net return realized by the Plan over a specified period and is a measure of the total proceeds received from an investment dollar initially invested. Total proceeds include cash distributions (interest and dividend payments) and capital gains and losses (realized and unrealized).

** The policy benchmark return is a product of the weighted average policy sector weights and sector returns.

Note 7 - Investment and Member Service Expenses

Member service expenses, including Board costs in the amount of $49,000 (2005 $43,000), were charged to the Plan on a cost-recovery basis.

The Plan's share of the Alberta Pensions Administration Corporation's operating and plan-specific costs was based on cost allocation policies approved by the Minister of Finance. These policies have been revised on a prospective basis effective January 1, 2006 and will be reviewed once every three years by the Minister.

Total Plan expenses, including investment and member service expenses, amounted to $675 per member (2005 $667 per member). Total Plan expenses including investment and member service expenses, amounted to 0.23% (2005 0.24%) of assets under administration.

Note 8 - Accrued Benefits

(a) Actuarial Valuation

An actuarial valuation of the Plan was carried out as at December 31, 2004 by Aon Consulting Inc. and was then extrapolated to December 31, 2006, after taking into account the impact of salary range increases in 2005.

Actuarial valuations were determined using the projected benefit method prorated on service. The assumptions used in the valuations and extrapolations were developed as the best estimates of expected short-term and long-term market conditions and other future events. After consultation with the Plan's actuary, the Board approved these best estimates. The major assumptions used were:

	2006 Extrapolation %	2004 Valuation and 2005 Extrapolation %
Asset real rate of return	4.0	4.0
Inflation rate	2.75	2.75
Investment rate of return	6.75	6.75
Salary escalation rate*	3.25	3.25

* In addition to merit and promotion.

Note 8 - Accrued Benefits (continued)

(b) Sensitivity of Changes in Major Assumptions

The Plan's future experience will inevitably differ, perhaps significantly, from the assumptions used in the actuarial valuation and extrapolation. Any differences between the actuarial assumptions and future experience will emerge as gains or losses in future valuations and will affect the financial position of the Plan.

The following is a summary of the sensitivities of the Plan's deficiency and current service cost to changes in assumptions used in the actuarial extrapolation at December 31, 2006:

	Sensitivities		
	Changes in Assumptions %	**Increase in Plan Deficiency ($ millions)**	**Increase in Current Service Cost as a % Pensionable Earnings***
Inflation rate increase holding nominal investment return and salary escalation assumptions constant	1.0%	$165	1.0%
Salary escalation rate increase holding inflation rate and nominal investment return assumptions constant	1.0%	34	0.5%
Investment rate of return decrease holding inflation rate and salary escalation assumptions constant	(1.0%)	308	3.7%

* The current service cost as a % of pensionable earnings as determined by the December 31, 2004 valuation was 21.3%.

Note 9 - Funding of Actuarial Deficiency

The Plan's deficiency is determined on the fair value basis for accounting purposes. However, for funding valuation and extrapolation purposes, asset values are adjusted for fluctuations in fair values to moderate the effect of market volatility on the Plan's funded status. Actuarial asset values for funding valuation and extrapolation purposes amounted to $2,028 million at December 31, 2006 (2005 $1,837 million).

In accordance with the *Public Sector Pension Plans Act*, the actuarial deficiencies as determined by actuarial funding valuations are expected to be funded by special payments currently totalling 7.2% of pensionable earnings shared between employees and employers until December 31, 2018. The special payments have been included in the rates in effect at December 31, 2006 (see Note 1(b)).

Note 10 - Subsequent Event

In March 2007, the *Appropriation (Supplementary Supply) Act 2007* was passed authorizing the Province to make a lump sum payment of $40 million to the Plan for a portion of the Government's share of the Plan's unfunded actuarial deficiency.

Note 11 - Comparative Figures

Comparative figures have been restated to be consistent with 2006 presentation.

Note 12 - Responsibility for Financial Statements

These financial statements were approved by the Deputy Minister of Finance based on information provided by Alberta Pensions Administration Corporation and the Plan's actuary, and after consultation with the Management Employees Pension Board.

Schedule A

MANAGEMENT EMPLOYEES PENSION PLAN

Schedule of Investments in Fixed Income Securities

December 31, 2006

	Plan's Share	
	2006	2005
	($ thousands)	
Deposits and short-term securities	$19,493	$21,375
Fixed income securities (a) (b)		
Public		
Government of Canada, direct and guaranteed	219,720	223,628
Provincial		
Alberta, direct and guaranteed	232	296
Other, direct and guaranteed	97,833	118,298
Municipal	288	3,187
Corporate, public and private	448,734	379,610
	766,807	725,019
Receivable from sale of investments and accrued investment income	7,479	7,292
Liabilities for investment purchases	(746)	(70)
	6,733	7,222
	$793,033	**$753,616**

(a) Reflects the Plan's effective investments in fixed income securities, after taking into account the Plan's proportionate share of Canadian bond index swap contracts held by pooled funds (see Note 5).

(b) Fixed income securities held as at December 31, 2006 had an average effective market yield of 5.17% per annum (2005 4.24% per annum). The following term structure of these securities as at December 31, 2006 was based on principal amount:

	2006	2005
	%	
Under 1 year	2	2
1 to 5 years	29	29
6 to 10 years	34	32
11 to 20 years	13	15
Over 20 years	22	22
	100	**100**

Schedule B

MANAGEMENT EMPLOYEES PENSION PLAN

Schedule of Investments in Canadian Equities
December 31, 2006

	Plan's Share	
	2006	2005
	($ thousands)	
Deposits and short-term securities	$2,341	$3,372
Public equities (a) (b)		
Consumer discretionary	27,163	25,940
Consumer staples	14,927	15,743
Energy	126,687	118,017
Financials	153,545	138,695
Health care	3,725	5,088
Industrials	25,385	26,153
Information technology	22,022	18,465
Materials	73,240	64,298
Telecommunication services	26,969	22,233
Utilities	4,775	4,758
	478,438	439,390
Passive index	-	62
	478,438	439,452
Private Equity Pool	4,593	1,453
Receivable from sale of investments and accrued investment income	9,804	11,771
Liabilities for investment purchases	(423)	(5,142)
	9,381	6,629
	$494,753	**$450,906**

(a) Reflects the Plan's effective investments in Canadian public equities, after taking into account the Plan's proportionate share of Canadian equity index swaps and futures contracts held by pooled funds (see Note 5).

(b) The sector classification conforms to the Global Industry Classification Standard followed by the Toronto Stock Exchange S&P/TSX Composite Index.

Schedule C

MANAGEMENT EMPLOYEES PENSION PLAN

Schedule of Investments in United States Equities

December 31, 2006

	Plan's Share	
	2006	**2005**
	($ thousands)	
Deposits and short-term securities	$8,737	$7,694
Public equities (a) (b)		
Consumer discretionary	38,417	29,542
Consumer staples	30,415	24,164
Energy	32,980	24,336
Financials	80,103	59,906
Health care	42,154	35,867
Industrials	40,710	32,052
Information technology	53,002	40,269
Materials	11,407	9,621
Telecommunication services	11,108	7,204
Utilities	12,899	9,476
	353,195	272,437
Passive index	133	201
	353,328	272,638
Receivable from sale of investments and accrued investment income	845	6,452
Liabilities for investment purchases	(743)	(4,601)
	102	1,851
	$362,167	**$282,183**

(a) Reflects the Plan's effective investments in United States public equities, after taking into account the Plan's proportionate share of U.S. equity index swaps and futures contracts held by pooled funds (see Note 5).

(b) The sector classification conforms to the Global Industry Classification Standard followed by the Standard & Poor's S&P 500 Index.

Schedule D

MANAGEMENT EMPLOYEES PENSION PLAN

Schedule of Investments in Non-North American Equities
December 31, 2006

	Plan's Share	
	2006	2005
	($ thousands)	
Deposits and short-term securities	$9,535	$1,283
Public equities (a) (b)		
Consumer discretionary	45,698	35,640
Consumer staples	22,826	20,216
Energy	25,472	22,989
Financials	103,737	83,737
Health care	24,929	23,706
Industrials	47,742	38,028
Information technology	23,241	19,955
Materials	26,065	23,732
Telecommunications services	22,323	19,112
Utilities	16,911	12,684
	358,944	299,799
Passive index	10,198	11,878
Receivable from sale of investments and accrued investment income	5,430	3,223
Liabilities for investment purchases	(9,680)	(2,256)
	(4,250)	967
	$374,427	**$313,927**

(a) Reflects the Plan's effective investments in non-North American public equities, after taking into account the Plan's proportionate share of non-North American equity index swaps and futures contracts held by pooled funds (see Note 5).

(b) The sector classification conforms to the Global Industry Classification Standard followed by Standard & Poor's. The following is a summary of the Plan's investment in non-North American public equities by country based on the geographic location of the stock exchange on which stocks were purchased.

	Plan's Share	
	2006	2005
	($ thousands)	
United Kingdom	$77,735	$61,072
Japan	70,610	66,859
France	38,976	30,118
Germany	26,808	17,683
Switzerland	20,812	22,262
Netherlands	20,083	15,629
Spain	14,532	8,250
Italy	12,610	9,433
Australia	11,751	11,683
Sweden	7,252	6,482
Other	57,775	50,328
	$358,944	$299,799

Schedule E

MANAGEMENT EMPLOYEES PENSION PLAN

Schedule of Investments in Real Estate

December 31, 2006

	Plan's Share	
	2006	2005
	($ thousands)	
Deposits and short-term securities	$81	$16
Real estate (a)		
Office	78,222	63,196
Retail	46,216	42,148
Industrial	20,035	12,599
Residential	7,621	5,782
	152,094	123,725
Passive index	5,455	2,790
Receivable from sale of investments and accrued investment income	100	265
	$157,730	**$126,796**

(a) The following is a summary of the Plan's investment in real estate by geographic locations:

	Plan's Share	
	2006	2005
	($ thousands)	
Ontario	$87,222	$76,743
Alberta	47,539	33,612
Quebec	14,367	11,042
British Columbia	2,966	2,328
	$152,094	$123,725

TEN-YEAR PLAN SUMMARY
(UN-AUDITED)

IEPP Ten-year Plan Summary
ıs at December 31, 2006

					($ thousands)					
	2006	**2005**	**2004**	**2003**	**2002**	**2001**	**2000**	**1999**	**1998**	**1997**
Change in net assets										
ncome										
nvestment income (loss)	$279,150	$227,795	$163,484	$190,938	$(76,107)	$(64,883)	$118,341	$207,667	$105,296	$132,257
Contributions	104,003	86,003	66,663	56,297	46,230	42,361	38,983	36,336	39,508	36,140
otal Income	**383,153**	**313,798**	**230,147**	**247,235**	**(29,877)**	**(22,522)**	**157,324**	**244,003**	**144,804**	**168,397**
Expenditures										
Benefits paid	84,937	76,873	68,145	61,296	54,714	48,476	43,160	38,232	33,483	27,820
Refunds to members	4,653	1,900	2,117	1,143	1,603	1,247	1,415	1,554	2,651	2,680
ransfers to (from) other plans	(322)	(953)	186	170	293	683	(243)	66,278	(34)	59
nvestment expenses ^	3,958	3,368	3,208	1,930	1,868	1,748	1,496	1,457	219	164
Member service expenses	1,207	1,416	1,427	1,363	1,105	686	487	581	440	414
otal expenditures	**94,433**	**82,604**	**75,083**	**65,902**	**59,583**	**52,840**	**43,315**	**108,102**	**36,759**	**31,137**
ncrease (decrease) in net assets	**288,720**	**231,194**	**155,064**	**181,333**	**(89,460)**	**(75,362)**	**111,009**	**135,686**	**108,045**	**137,260**
let assets										
nvestments										
Short-term	11,844	11,941	29,865	17,784	9,889	27,737	33,016	3,335	4,043	12,449
ixed income securities	781,189	741,675	640,618	567,255	529,924	544,517	619,941	569,897	597,605	563,226
Equities										
Canadian	550,628	473,466	449,245	423,513	354,208	457,113	469,248	494,928	365,032	354,951
United States	362,167	282,183	249,229	230,224	212,193	445,930	428,950	378,355	309,543	239,351
Non-North American	374,427	313,927	269,192	255,251	210,579	-	-	-	26,629	27,889
Real estate	157,730	126,796	83,191	72,912	69,780	-	-	-	-	-
otal Investments	**2,237,985**	**1,949,988**	**1,721,340**	**1,566,939**	**1,386,573**	**1,475,297**	**1,551,155**	**1,446,515**	**1,305,852**	**1,197,866**
Contributions and other receivables	8988	8,282	5,779	5,215	4,716	4,769	4,318	3,234	3,325	2,975
iabilities	(81)	(98)	(141)	(240)	(708)	(25)	(70)	(5,355)	(469)	(178)
let assets available for benefits	**$2,246,892**	**$1,958,172**	**$1,726,978**	**$1,571,914**	**$1,390,581**	**$1,480,041**	**$1,555,403**	**$1,444,394**	**$1,308,708**	**$1,200,663**
ctuarial value of accrued benefits	(2,253,657)	(2,124,067)	(1,995,079)	(1,861,928)	(1,692,549)	(1,474,703)	(1,384,545)	(1,311,675)	(1,250,853)	(1,165,653)
urplus (Deficiency)	**(6,765)**	**(165,895)**	**(268,101)**	**(290,014)**	**(301,968)**	**5,338**	**170,858**	**132,719**	**57,855**	**35,010**
unded ratio (%)	99	92	87	84	82	100	112	110	105	103
erformance (%)										
ong-term goal	6.75	6.75	6.75	6.75	7.0	7.25	7.25	7.25	7.5	7.5
Rate of return-nominal	14.0	13.1	10.2	13.7	(5.3)	(4.4)	8.1	16.0	8.8	12.3
enchmark	13.2	11.9	10.0	12.8	(5.6)	(4.1)	7.0	13.4	11.2	13.4
Consumer Price Index (Canada)	1.6	2.2	2.1	2.0	3.9	0.7	3.2	2.5	1.0	1.60
Real rate of return	12.4	10.9	8.1	11.7	(9.2)	(5.1)	4.9	13.5	7.8	10.7
nterest Rates (%)										
ank of Canada	4.25	3.25	2.75	2.75	3.00	2.50	6.00	5.00	5.30	4.50
.S. Federal Reserve	5.25	4.25	2.25	1.00	0.75	1.25	6.50	5.50	4.50	5.50
larket Indices (%)										
&P/TSX ($Cdn)	17.3	24.1	14.5	26.8	(12.4)	(12.6)	7.4	31.7	(1.6)	15.0
ow Jones Industrial Index ($Cdn)	16.2	(3.7)	(3.9)	2.5	(17.5)	(1.4)	(2.5)	18.1	24.3	28.0
&P 1500 ($Cdn) ^^	15.3	1.6	3.3	5.3	(22.9)	(6.4)	(5.8)	14.2	38.0	39.2
ISCI EAFE ($Cdn)	26.0	10.0	12.0	13.3	(16.8)	(16.5)	(11.2)	20.0	28.8	6.3
C Bond Universe Index	4.1	6.5	7.1	6.7	8.7	8.1	10.3	(1.1)	9.2	9.6
articipants ^^^										
ctive members	4,654	4,447	4,206	4,029	3,665	3,405	3,373	3,003	3,013	3,474
active members	789	756	731	770	873	929	861	1,032	867	808
ensioners	2,446	2,211	2,016	1,837	1,669	1,480	1,329	1,183	1,048	893
otal	**7,889**	**7,414**	**6,953**	**6,636**	**6,207**	**5,814**	**5,563**	**5,218**	**4,928**	**5,175**
verage age of active members ^^^^ years)	48.9	48.9	48.9	48.9	48.9	49.0	47.8	48.1	48.2	46.9
verage age of pensioners (years)	64.7	64.7	64.1	62.1	62.1	61.1	61.1	61.1	60.6	60.1
verage annual pension amount	$35,508	$34,977	$35,061	$34,572	$34,476	$34,476	$33,564	$33,564	$33,733	$33,428
ontribution Rates (%)										
mployees	10.50	10.50	9.50	9.50	7.75	7.75	7.75	7.00	7.00	7.00
mployers	18.00	18.00	13.10	13.10	10.75	10.75	10.75	8.00	8.00	8.00
nfunded liability		-	-	-	-	-	-	3.50	3.50	3.50
nnual COLA, effective January 1 (%)	1.20	0.78	3.42	1.02	1.98	1.98	1.32	0.66	1.32	1.26

External management investment costs are not available for restatement for the periods from 1998 to 1996.
^ S&P 1500 in 2006, previously S&P 500.
^^ Participant counts may differ from the actuarial valuation results due to timing differences and treatment of inactive member accounts.
^^^ Updated in years when actuarial valuations are performed.

2007 DIRECTORY

Board Members

Employee Nominees
Blake Bartlett
Scott Kashuba, Chair
David Lawson

Government Nominees
Fred Barth
Nancy Bochard, Vice Chair
Roderick McDermand

Public Service Commissioner Nominee (non-voting)
Jan Loree Symon

Investment Committee
Nancy Bochard
Joe Doolan*
Jim Hinks*
David Lawson, Chair
(*external member)

Advisors and Suppliers
Administrator: Alberta Pensions Administration (APA) Corporation
Fund Management: Alberta Investment Management (AIM), the investment operation of Alberta Finance
Auditor: Auditor General of Alberta
Actuary: AON Consulting Inc.
Investment Consultant: API Asset Performance Inc.
Board Secretary: Christa Taylor

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